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**Pennington Medical Foundation
Baton Rouge, Louisiana
December 31, 2004**

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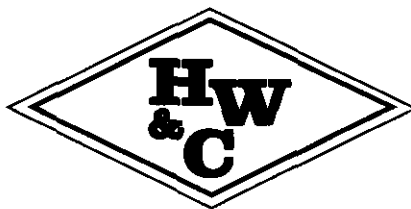
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CERTIFIED PUBLIC ACCOUNTANTS

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April 8, 2005

Independent Auditor's Report

The Officers and Board of Trustees
Pennington Medical Foundation
Baton Rouge, Louisiana

We have audited the accompanying statement of financial position of the

**Pennington Medical Foundation
A Non-Profit Organization
Baton Rouge, Louisiana**

as of December 31, 2004, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pennington Medical Foundation as of December 31, 2004 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Yours truly,

Hawthorn, Waymouth & Carroll, L.L.P.

**Pennington Medical Foundation
Statement of Financial Position
December 31, 2004**

A s s e t s

Current Assets

Cash and cash equivalents	\$3,554,203
Investments	87,333,303
Accounts receivable	10,166
Accrued interest	75,971
Accrued royalties	33,397
Prepaid insurance	38,800
Pending trades receivable	<u>49,419</u>
	91,095,259

Assets Held in Trust	107,350
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Property and Equipment, Net	<u>40,437,146</u>
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<u>Total assets</u>	<u>131,639,755</u>
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Liabilities and Net Assets

Current Liabilities

Accounts payable	\$600,719
Notes payable, current maturities	690,000
Pending trades payable	<u>19,759</u>
	<u>1,310,478</u>

Long-Term Liabilities

Notes payable, less current maturities	<u>39,485,000</u>
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Net Assets

Unrestricted	49,412,864
Unrestricted - designated	<u>41,431,413</u>
	<u>90,844,277</u>

<u>Total liabilities and net assets</u>	<u>131,639,755</u>
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The accompanying notes are an integral part of these statements.

**Pennington Medical Foundation
Statement of Activities
Year Ended December 31, 2004**

<u>Unrestricted</u>	
Revenue	
Investment	\$9,648,473
Rental	65,807
Donations	1,569
Other	<u>6,513</u>
<u>Total revenue</u>	<u>9,722,362</u>
Expenses	
Program services	20,590,963
General and administrative	<u>2,199,662</u>
<u>Total expenses</u>	<u>22,790,625</u>
Change in Net Assets	(13,068,263)
Net Assets	
Beginning of year	<u>103,912,540</u>
End of year	<u>90,844,277</u>

The accompanying notes are an integral part of these statements.

Pennington Medial Foundation
Statement of Functional Expenses
Year Ended December 31, 2004

	<u>Program Expenses</u>	<u>General and Administrative</u>	<u>Total</u>
Contracts and supplements	\$1,361,837	\$61,037	\$1,422,874
Pennington Biomedical			
Research Center projects	163,017		163,017
Operations and maintenance	44,266	850,000	894,266
Professional fees	37,928	501,376	539,304
Office expense	27,217	20,597	47,814
Severance tax		30,145	30,145
Foreign taxes		39,149	39,149
Depreciation expense	1,560,714	623,589	2,184,303
General development	12,813	1,921	14,734
Recruitment	16,100		16,100
Travel	39,066		39,066
Insurance		68,002	68,002
Letter of credit and remarketing fees	337,279		337,279
Computer equipment	243,084		243,084
Supplies	392,634		392,634
Interest	508,692		508,692
Conferences/symposia	74,731		74,731
Property donated to Pennington			
Biomedical Research Center	15,497,390		15,497,390
Debt forgiven	273,000		273,000
Miscellaneous	<u>1,195</u>	<u>3,846</u>	<u>5,041</u>
	<u><u>20,590,963</u></u>	<u><u>2,199,662</u></u>	<u><u>22,790,625</u></u>

The accompanying notes are an integral part of these statements.

Pennington Medial Foundation
Statement of Cash Flows
Year Ended December 31, 2004

Cash Flows From Operating Activities

Change in net assets	(\$13,068,263)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	2,184,303
Debt forgiven	273,000
Donations	15,497,390
Realized gains on investments	(2,176,367)
Unrealized gains on investments	(5,929,002)
Changes in operating assets and liabilities	
Accounts receivable	(10,166)
Accrued interest	(28,622)
Accrued royalties	(33,397)
Prepaid expenses	(35,101)
Pending trades receivable	146,809
Accounts payable	(661,086)
Retainage payable	(1,639,918)
Pending trades	<u>(52,425)</u>
<u>Net cash provided (used) by operating activities</u>	<u>(5,532,845)</u>

Cash Flows From Investing Activities

Fixed asset additions	(927,861)
Purchase of investments	(14,182,728)
Proceeds from sale of investments	10,967,361
Decrease in assets held in trust	<u>3,504,055</u>
<u>Net cash provided (used) by investing activities</u>	<u>(639,173)</u>

Cash Flows From Financing Activities

Payment on long-term debt	<u>(640,000)</u>
<u>Net cash used by financing activities</u>	<u>(640,000)</u>

Net Increase (Decrease) in Cash (6,812,018)

Cash and Cash Equivalents, beginning of year 10,366,221

Cash and Cash Equivalents, end of year 3,554,203

The accompanying notes are an integral part of these statements.

**Pennington Medical Foundation
Notes to Financial Statements
December 31, 2004**

Note 1-Summary of Accounting Policies

A. Nature of Operations

The Pennington Medical Foundation (the Foundation) is a non-profit organization created in 1980 exclusively for scientific purposes in constructing and equipping the Pennington Biomedical Research Center (the Center), a division of the Louisiana State University Agricultural and Mechanical College. The Foundation provides financial support, in conjunction with the Pennington Biomedical Research Foundation (the Research Foundation), for medical research conducted at the Center.

B. Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

C. Basis of Presentation

The Foundation has adopted Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets include those net assets whose use by the Foundation is not restricted by donors, even though their use may be limited in other respects, such as by contract or board designation. Temporarily restricted net assets are those net assets whose use by the Foundation has been limited by donors (a) to later periods of time or other specific dates, or (b) to specified purposes. Permanently restricted net assets are those net assets received with donor-imposed restrictions permanently limiting the Foundation's use of the asset. The Foundation does not have any temporarily or permanently restricted net assets.

D. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2004

Note 1-Summary of Accounting Policies (continued)

E. Cash and Cash Equivalents

The Foundation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

F. Investments

The Foundation has adopted Statement of Financial Accounting Standards No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations* ("SFAS No. 124"). Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the changes in net assets. Investment income is reported as increases in unrestricted net assets in the reporting period in which the income and gains are recognized.

G. Property and Equipment

Property and equipment are capitalized at cost. Maintenance and repair expenditures are expensed as incurred. Depreciation is computed using straight line and accelerated methods over the estimated useful lives of 5 to 39 years.

II. Income Taxes

The Foundation has been recognized by the Internal Revenue Service as a not-for-profit organization as described in Section 501 (c)(3) of the Internal Revenue Code and is exempt from federal income taxes. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. The Foundation has been classified as an organization other than a private foundation.

I. Capitalized Interest

The Foundation follows the policy of capitalizing interest as a component of the cost of property, plant and equipment constructed for its own use. In 2004, the total interest incurred of \$508,692 was charged to operations.

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2004

Note 1-Summary of Accounting Policies (continued)

J. Functional Expenses

Functional expenses are allocated between program services and supporting services, which include fund-raising, merchandise, and general and administrative. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation.

Note 2-Investments

Investments at December 31, 2004 are comprised of the following:

	<u>Cost</u>	<u>Market Value</u>
U. S. Government Obligations	\$217,243	\$229,431
Equities	32,989,710	40,332,749
Alpha Fund Notes	27,000,000	26,967,600
Meridian Diversified Fund	15,804,891	18,718,649
Mineral interest	<u> </u>	<u>1,084,874</u>
	<u>76,011,844</u>	<u>87,333,303</u>

Investment earnings are comprised of the following for the year ended December 31, 2004:

Interest income	\$29,816
Dividends	995,318
Realized gains on sales of investments	2,176,367
Unrealized gains on investments	5,929,002
Royalty income	<u>517,970</u>
	<u>9,648,473</u>

Note 3-Assets Held in Trust

Assets held in trust, totaling \$107,350 at December 31, 2004, are pledged for the design, construction, and equipping of a basic science building.

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2004

Note 4-Property and Equipment

The following schedule shows the changes in property and equipment for the year ended December 31, 2004:

	<u>2003</u> <u>Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>2004</u> <u>Balance</u>
Property and Equipment					
Infrastructure	\$4,422,481	\$91,397		(\$4,299,418)	\$214,460
Less accumulated depreciation	<u>(2,909,120)</u>	<u>(143,309)</u>		<u>3,030,015</u>	<u>(22,414)</u>
<u>Total infrastructure</u>	<u>1,513,361</u>	<u>(51,912)</u>		<u>(1,269,403)</u>	<u>192,046</u>
Buildings	59,053,021	234,729		(19,571,981)	39,715,769
Less accumulated depreciation	<u>(4,933,968)</u>	<u>(1,498,975)</u>		<u>5,372,639</u>	<u>(1,060,304)</u>
<u>Total buildings</u>	<u>54,119,053</u>	<u>(1,264,246)</u>		<u>(14,199,342)</u>	<u>38,655,465</u>
Equipment	4,115,941	601,735		(1,754,279)	2,963,397
Less accumulated depreciation	<u>(2,557,377)</u>	<u>(542,019)</u>		<u>1,725,634</u>	<u>(1,373,762)</u>
<u>Total equipment</u>	<u>1,558,564</u>	<u>59,716</u>		<u>(28,645)</u>	<u>1,589,635</u>
Property and Equipment, Net	<u>57,190,978</u>	<u>(1,256,442)</u>		<u>(15,497,390)</u>	<u>40,437,146</u>

Depreciation expense for the year ended December 31, 2004 was \$2,184,303.

Note 5-Notes Payable

The Foundation has two notes payable totaling \$40,175,000 at December 31, 2004. The interest rate at December 31, 2004 was 2%. Payments on the two notes began in 2004. The notes are secured by a security interest in the Foundation's assets, and an Irrevocable Direct Pay Letter of Credit for \$40,857,114.

	\$40,175,000
Less current maturities of notes payable	<u>690,000</u>
Notes payable, less current maturities	<u>39,485,000</u>

The following schedule shows the changes in notes payable for the year ended December 31, 2004:

<u>2003</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>2004</u> <u>Balance</u>
<u>\$40,815,000</u>		<u>\$640,000</u>	<u>\$40,175,000</u>

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2004

Note 5-Notes Payable (Continued)

The following schedule shows future principal amounts due.

2005	\$690,000
2006	740,000
2007	790,000
2008	840,000
2009	905,000
2010 and future years	36,210,000

Note 6-Net Assets Unrestricted - Designated

Unrestricted net assets designated by the Board of Trustees as of December 31, 2004, are as follows:

Series 2001 Debt	\$40,175,000
Maintenance Reserves	<u>1,256,413</u>
	<u>41,431,413</u>

Note 7-Rental Operations

The Foundation leases the Basic Science Building to an unrelated party under an operating lease which expires in 2036 or when the related debt for the building is paid in full. The lease requires an annual payment of \$100 and monthly payments of \$8,213. Revenue from the lease amounted to \$65,807 in 2004.

Note 8-Related Party Transactions

The Foundation had architectural contracts in the amount of \$3,910,823 with a trustee of the Foundation of which approximately \$138,347 was incurred during 2004. As of December 31, 2004, \$3,910,823 has been incurred. The Foundation entered into a new architectural contract in December 2004 for an addition to the existing building with the same trustee for approximately \$280,000.

Note 9-Management Agreement

On October 10, 1996, the Foundation entered into an agreement with the Pennington Biomedical Research Foundation. This agreement provided that the Research Foundation would undertake the responsibility for the operation and maintenance of the Claude B. Pennington Conference and Education

Pennington Medical Foundation
Notes to Financial Statements
December 31, 2004

Note 9-Management Agreement (Continued)

Center, the Pennington Residence Center, the Pennington Health and Fitness Center, and provide the Foundation with professional and administrative services. The Foundation reimburses the Research Foundation for the above services and allows the Research Foundation to retain the revenues generated from the conference center management operations. The Medical Foundation paid \$850,000 in 2004 to the Research Foundation for these management expenses.

Note 10-Concentrations of Credit Risk

The Foundation maintains its cash in deposit accounts at a financial institution. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000. The balances at times may exceed federally insured limits. At December 31, 2004, the Foundation's deposits did not exceed the insured limit.

The Foundation's investments are secured by Securities Investor Protection Corporation (SIPC) for up to \$60 million through insurance purchased by the investment company. However, the \$60 million of protection and SIPC do not insure the quality of investments or protect against losses from fluctuating market values.

Note 11-Fair Values of Financial Instruments

The following methods and assumptions were used by the Foundation in estimating its fair value disclosures for financial instruments:

Cash, and cash equivalents. The carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments.

Investments. The carrying values of investments reported in the statement of financial position are equal to the estimated fair values of those investments. The fair values of investments are based on quoted market prices for those or similar investments.

Notes payable. The carrying values of notes payable reported in the statement of financial position are equal to the estimated fair values of the notes payable. The fair values of the notes payable have been based upon market quotation for similar debt instruments or estimated using discounted cash flow analysis based upon the Foundation's current incremental borrowing rates for similar types of borrowing arrangements.

**Pennington Medical Foundation
Notes to Financial Statements
December 31, 2004**

Note 12-Commitments

During 2004, the Foundation agreed to support Dr. Bouchard's implementation of Vision 2010 for the next six years as follows:

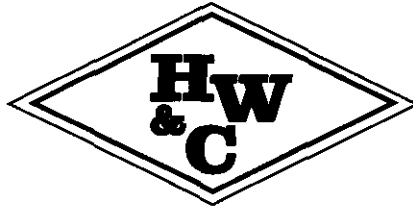
2005	\$2,400,000
2006	2,875,000
2007	2,825,000
2008	2,725,000
2009	2,575,000
2010	2,500,000

The Foundation entered into contracts for an addition to the existing building for approximately \$3,800,000.

Supplementary Information

HAWTHORN, WAYMOUTH & CARROLL, L.L.P.

J. CHARLES PARKER, C.P.A.
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April 8, 2005

**Independent Auditor's Report
on Supplementary Information**

To the Officers and Board of Trustees
Pennington Medical Foundation
Baton Rouge, Louisiana

Our report on our audit of the basic financial statements of the Pennington Medical Foundation for 2004 appears on page 3. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information, in the format presented, is not a required part of the basic financial statements, but is supplementary information required by the Louisiana State University System. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Yours truly,

Hawthorn, Waymouth & Carroll, L.L.P.

Pennington Medical Foundation
Statement of Net Assets
December 31, 2004

A s s e t s

2004

Current Assets

Cash and cash equivalents	\$3,554,203
Investments	87,333,303
Accounts receivable	10,166
Deferred charges and prepaid expenses	38,800
Other current assets	<u>158,787</u>
<u>Total current assets</u>	<u>91,095,259</u>

Noncurrent Assets

Restricted assets - cash and cash equivalents	107,350
Capital assets, net	<u>40,437,146</u>
<u>Total noncurrent assets</u>	<u>40,544,496</u>

<u>Total assets</u>	<u>131,639,755</u>
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L i a b i l i t i e s

Current Liabilities

Accounts payable and accrued liabilities	\$600,719
Notes payable	690,000
Other current liabilities	<u>19,759</u>
<u>Total current liabilities</u>	<u>1,310,478</u>

Noncurrent Liabilities

Notes payable	<u>39,485,000</u>
<u>Total noncurrent liabilities</u>	<u>39,485,000</u>

<u>Total liabilities</u>	<u>40,795,478</u>
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N e t A s s e t s

Invested in capital assets, net of related debt	\$262,146
Unrestricted	<u>90,582,131</u>
<u>Total net assets</u>	<u>90,844,277</u>

Pennington Medical Foundation
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended December 31, 2004

	<u>2004</u>
Operating Revenues	
Gifts received by the foundations	\$1,569
Other operating revenues	<u>72,320</u>
<u>Total operating revenues</u>	<u>73,889</u>
Operating Expenses	
Other operating expenses	<u>4,033,376</u>
<u>Total operating expenses</u>	<u>4,033,376</u>
<u>Operating income (loss)</u>	<u>(3,959,487)</u>
Nonoperating Revenues (Expenses)	
Net investment income	9,648,473
Interest expense	(508,692)
Payments to or on behalf of the university	<u>(18,248,557)</u>
<u>Net nonoperating revenues (expenses)</u>	<u>(9,108,776)</u>
<u>Increase (decrease) in net assets</u>	<u>(13,068,263)</u>
Net assets at beginning of year	<u>103,912,540</u>
Net assets at end of year	<u><u>90,844,277</u></u>